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**State of Montana
Office of the Legislative Auditor**

EDP Audit

**Acquisition and Disposal of
Data Processing Equipment and Software**

This report contains recommendations for improvements in the acquisition and disposal of data processing equipment and software for the State of Montana, including:

- ▶ Using cost effective acquisition financing.
- ▶ Promoting compliance with state law.
- ▶ Changing the review and approval of university system acquisitions.
- ▶ Analyzing the cost effectiveness of vendor maintenance agreements.

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March 16, 1984

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To Legislative Audit Committee
of the Montana State Legislature:

This is our EDP audit of the acquisition and disposal of data processing equipment and software.

This report contains recommendations for changes in laws and policies governing the procurement and disposal of data equipment and software. Agency responses are contained at the end of the report.

We wish to express our appreciation to the staff of the departments and universities for their cooperation and assistance.

Respectively submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Deputy Legislative Auditor

Approved by:

A handwritten signature in dark ink, appearing to read "Robert R. Ringwood", with a stylized, cursive script.

Robert R. Ringwood
Legislative Auditor



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CHAPTER I

INTRODUCTION

During late 1982, the Office of the Legislative Auditor conducted a survey of state data processing activities. One of the potential audit areas identified in the survey was the acquisition and disposal of data processing equipment. The Legislative Audit Committee requested an audit of this area. This report results from our audit.

ISSUES FOR FURTHER STUDY

During our audit, we identified a potential for a general performance audit of state purchasing. In 1979, the Office of the Legislative Auditor conducted a performance audit of the Purchasing Division. The audit made recommendations addressing:

- The need for a management information system.
- The lack of vendor selection criteria.
- The use of "please writes."
- The use of brand name specifications.
- Sole source acquisitions.
- Improper rejection of low bids.

Chapter 519, Laws of Montana, 1983, substantially revised the state purchasing laws. Several of the revisions address recommendations made in our 1979 performance audit of the Purchasing Division. The effective date for the majority of the revisions was January 1, 1984. During this audit, the Department of Administration was in the process of revising administrative rules and Purchasing Division policies to address changes in the purchasing laws. A future performance audit could determine whether the new laws, rules, and policies have solved the problems.

Following our previous audit of state purchasing, the Purchasing Division requested and obtained funding for development of an automated purchasing information system. The Systems

Development Bureau completed development of the automated purchasing system in January of 1983. The development cost \$59,210, including \$47,500 for services and \$11,710 in data processing costs. At the time of our audit of data processing acquisition and disposal, only a small portion of the automated system was implemented. Since development of the automated system is complete, the system could be evaluated at any time.

MANAGEMENT MEMORANDA

As a result of our audit, we issued two management memoranda. (Management memoranda are communications to agency management concerning issues they may wish to address.) The management memoranda we issued related to our findings concerning training provided for the data-processing purchasing agent and the lack of formal needs analyses to support equipment purchases.

The first management memorandum addressed the lack of formal training in data processing acquisitions provided the data processing purchasing agent. Training was described as substantially directed to the general acquisitions area and to vendor literature and trade shows. We recognized that the data processing purchasing agent has gained expertise through years of experience in data processing acquisitions. Our memorandum contained suggestions, that in the future, data processing acquisitions be assigned to a purchasing agent with experience or a strong interest in data processing. We also suggested the department provide specialized training in data processing acquisitions for the data processing purchasing agent.

The second management memorandum addressed the lack of formal needs analyses to support equipment purchases. We determined that a majority of agencies do not perform formal needs analysis prior to equipment selection. Selection of equipment should be based on both current and long range needs of the agency. The detail of needs analysis performed should relate to the cost and complexity of the equipment purchased. A more detailed analysis should be performed for the acquisition of a computer system than for the acquisition of a single terminal.

Our memorandum suggested inclusion of guidelines for needs analysis as a part of the planning or acquisition process. The Department of Administration is currently developing a long range data processing planning process and a data processing equipment acquisition process for state government.

OBJECTIVES OF AUDIT

The objectives of our audit were to determine:

1. The effect of acquisition by lease, lease purchase or rental.
2. The adequacy of agency procedures for evaluating needs and developing specifications for data processing requisitions.
3. The adequacy of data processing expertise within the Purchasing Division.
4. The adequacy of Purchasing Division procedures to ensure:
 - a) Appropriate vendors are requested to bid on items.
 - b) Vendors are allowed sufficient time to respond to bids.
 - c) Alternatives are considered for sole source and brand name purchases.
 - d) Purchases are combined when feasible.
5. The adequacy of procedures to ensure proper disposal of data processing equipment.
6. The cost benefit of maintenance contracts for data processing equipment.
7. The adequacy of contracts for the acquisition of data processing equipment or software (computer programs).
8. The feasibility of establishing a centralized pool of data processing equipment for use by state agencies.
9. Compliance with applicable laws, rules, and regulations.

SCOPE OF AUDIT

The audit focused on the adequacy of management controls and procedures to ensure economy and efficiency in the acquisition and disposal of data processing equipment and software. The audit was conducted in accordance with generally accepted government performance auditing standards.

As a part of our audit we developed a population from a data processing requisition log maintained by the Purchasing Division. Scheduling population data was necessary because the Purchasing Division has not implemented the automated purchasing information system. No summary information on data processing acquisitions was available for use during the audit. We examined samples of requisitions received by the Purchasing Division in fiscal year 1982-83 as documented in the log. Our sample included requisitions from seventeen state agencies from the executive and judicial branches, as well as the university system.

We contacted a sample of other states to determine their procedures relating to the acquisition of data processing equipment.

A sample of vendors dealing with the state were contacted to determine their opinions on purchasing procedures for data processing equipment and potential improvements to the purchasing process.

CHAPTER II

BACKGROUND

Based on amounts recorded on the Statewide Budgeting and Accounting System we estimate expenditures for the acquisition of data processing hardware (equipment) and software (computer programs) exceeds \$4,000,000 annually. Acquisition may be made by outright purchase, time purchase agreement, lease purchase agreement, lease, rental, or license agreement.

The acquisition of data processing hardware or software involves the requesting agency and the Department of Administration's Purchasing and Computer Services Divisions. The requesting agency is responsible for identifying data processing hardware or software needs and developing specifications.

Current state law requires the Department of Administration to review and approve agency specifications and procurement methods for the acquisition of data processing equipment to ensure compatibility with existing systems and conformity with the statewide data processing plan. The Computer Services Division performs the review and approval process for the Department of Administration. Acquisitions of equipment relating to instruction and research in the university system and all acquisition by the Office of the Superintendent of Public Instruction are exempt from the review and approval process.

Procurement of data processing equipment is performed by the Purchasing Division of the Department of Administration. The purchasing bureau chief processes substantially all data processing acquisitions. The bureau chief is also responsible for supervising the activity of the other purchasing agents.

Purchasing procedures for data processing equipment are similar to procedures used for other items. A majority of items are purchased through competitive sealed bids. A large number are also acquired using "please writes." "Please writes" are requests for bids from a limited number of vendors. "Please writes" are solicited both by mail and by telephone.

DATA PROCESSING ACQUISITION STATISTICS

As noted previously, there is no comprehensive information gathered on the acquisition of data processing equipment and software by the state. We gathered our information by manually reviewing Purchasing Division files. The information contained in the following charts may not be complete but is the best available.

The first illustration summarizes the data processing acquisitions for fiscal year 1982-83.

SUMMARY OF DATA PROCESSING REQUISITIONS

	<u>Number of Requisitions</u>	<u>Percent of Total Requisitions</u>
<u>Disposition of Requisitions</u>		
Requisitions Resulting in Acquisition	432	96%
Cancelled Requisitions	18	4%
Total	450	100%
<u>Acquisition Method</u>		
Purchases	402	93%
Lease/Purchases	24	6%
Leases	6	1%
Total	432	100%
<u>Bid Method</u>		
Please Writes	139	32%
Requests for Quotation	249	58%
Other	44	10%
Total	432	100%
<u>Additional Information</u>		
Sole Source Purchases	192	44%
Brand Name Specifications	354	82%

Source: Compiled by the Office of the Legislative Auditor

Illustration 1

Illustration 2 shows the distribution of data processing requisitions throughout the year. The chart shows that a disproportionate share of the requisitions are submitted at the end of the fiscal year.

DISTRIBUTION OF DATA PROCESSING REQUISITIONS
(Fiscal Year 1982-83)

<u>Month</u>	<u>Requisitions</u>	<u>Percentage</u>
July	20	4.6
August	33	7.6
September	21	4.9
October	29	6.7
November	25	5.8
December	34	7.9
January	24	5.6
February	28	6.5
March	30	6.9
April	12	2.8
May*	175	40.6
June	1	.1
Total	432	100.0

*May 16, 1983 was the deadline for submitting fiscal year 1982-83 requisitions.

Source: Compiled by the Office of the Legislative Auditor

Illustration 2

COMPLIANCE

As a part of our audit we reviewed compliance with laws, administrative rules, and policies relating to acquisition and disposal of data processing equipment. We examined compliance with the statutes as they applied during our audit period. Chapter 519, Laws of Montana, 1983, revised the purchasing laws effective January 1, 1984. We reviewed the revised laws but, as yet, sufficient data is not available to test compliance.

Specific instances of non-compliance with laws, rules or policies that were found in our examination are discussed in the related report sections. The following chart summarizes our compliance findings. For items we did not test, nothing came to our attention that would indicate significant instances of non-compliance.

COMPLIANCE WITH STATUTES
RELATING TO DATA PROCESSING ACQUISITIONS

<u>MCA Section</u>	<u>Summary</u>	<u>Auditor's Comment</u>
2-17-501(a)	Establish policies and a plan for data processing.	DofA is in the process of developing a plan. No policies related to acquisition have been issued. Suggested policies are noted on pages 11, 24, 27, 29, and 31.
2-17-501(b)	Review and approve equipment acquisitions with exemption for Office of Public Instruction and some university system acquisitions.	We recommend establishing procedures to help assure compliance when purchasing authority is delegated to agencies (page 20). We suggest a change in the university system exemption to make it more relevant (page 21).
18-4-202, 203	DofA required to contact all vendors on the bidders list.	Repealed by the 1983 Legislature. Prior to the repeal, the state was not complying (page 13).
18-4-222	Delegation of purchasing authority to agencies.	Purchasing has delegated authority in some instances.
18-4-234	Specifications not to be unduly restrictive.	We recommend establishing procedures to help ensure specifications are not unduly restrictive (page 17 and 18).
18-4-303	Competitive sealed bid	We recommend procedures be established to help assure bids are only awarded based upon items stated in the request for quotation (page 16).
18-40-304	Competitive sealed proposal procedures.	This process has not been used yet.

<u>MCA Section</u>	<u>Summary</u>	<u>Auditor's Comment</u>
18-4-305	DofA allowed to adopt rules for small purchases.	We recommend establishing objective criteria for selection of vendors in accordance with small purchasing rules established by the department (page 14).
18-4-306	Requires DofA to keep records on sole source purchases.	We recommend establishing procedures to help ensure compliance with sole source requirements (page 19).
18-4-313(2)	Requires that contract extensions must show in writing that it is beneficial to the state.	We suggest that contract extensions only be approved if properly justified (page 12).
18-4-313(3)	Requires cancellation of contracts if subsequent funding not available.	Contracts contain such a provision.
18-5, Part 2 and Title 18 Chapter 6	Surplus property and sale of state property laws.	Because of expertise levels, delegation of this authority relative to data processing equipment is suggested (page 26).

CHAPTER III

FINANCING DATA PROCESSING ACQUISITIONS

The method of financing, rental, lease, time purchase or outright purchase, is a major consideration in the acquisition of data processing equipment. We determined that the method of financing can cause the acquisition costs to vary as much as 25 percent. Based on information obtained from the Statewide Budgeting and Accounting System (SBAS) and other sources, we estimate over \$3,000,000 was spent in fiscal year 1982-83 for the lease, rental, or time purchase of data processing equipment. While we found that agencies acted prudently in most of these acquisitions, we noted that there were no policies to help assure that agencies would continue to acquire in the most cost effective manner.

ANALYSIS OF FINANCING METHOD

We examined thirty-two rental, lease, or time purchase agreements. Only three of sixteen agencies represented in our sample performed a formal analysis on the cost benefit of the financing method. Several agencies we contacted indicated they were forced to lease because of budgetary or cash limitations. Since they believed no other options existed, cost benefit analyses were not performed on alternative financing methods.

In fiscal year 1982-83 approximately one percent of all new acquisitions were by lease. We examined costs for a sample of leases and determined the average cost to lease will exceed the cost to purchase by nearly 20 percent over the life of the lease agreements. On the six leases we examined, \$29,000 could be saved over the term of the lease agreements by purchasing rather than leasing the items.

Another alternative for financing the acquisition of data processing equipment is time purchase agreements. We examined a sample of seven time purchase agreements for data processing equipment. We estimate the state saved \$68,000 over the cost of

outright purchase by purchasing the sample items under time purchase agreements. This represents a savings of approximately 2 percent of the purchase cost of \$3,093,000.

For the acquisitions we examined, the purchase price was the same for cash purchase as for time purchase agreement. The savings results from the favorable interest rates provided on vendor financing. Interest charged by the vendors was less than the earnings from investments in the Treasurer's Investment Fund. The savings represents the excess of investment earnings over the cost of financing. Under the term purchase agreements the cost is greater to the agency but provides a net savings to the state.

Section 2-17-501, MCA, gives the Department of Administration the authority and responsibility to establish policies for the operation and development of data processing for state government in cooperation with the agencies. In accordance with section 2-17-501, MCA, the department should establish policies requiring agencies to analyze the cost benefit of financing alternatives when acquiring data processing equipment. Policies should require agencies to use the most cost beneficial acquisition method, or justify the use of an alternative method.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION
ESTABLISH A POLICY REQUIRING AGENCIES TO:

- A. ANALYZE THE COST BENEFIT OF ACQUISITION METHODS
PRIOR TO ACQUIRING DATA PROCESSING EQUIPMENT.
- B. USE THE MOST COST BENEFICIAL ACQUISITION METHOD
OR JUSTIFY, IN WRITING, THE USE OF AN ALTERNATIVE
PROCESS.

REVIEW OF LEASE OR RENTAL AGREEMENTS

Currently there are no policies requiring the periodic review of lease, lease purchase, or rental agreements for the acquisition of data processing equipment. We examined a sample of ten lease, lease purchase, and rental agreements entered into prior to 1980.

For the items we examined, we determined lease or rental costs exceeded the cost of purchase by approximately \$50,000 since 1977. The reasons given for continued rentals were primarily budgetary. The agencies originally rented or leased the equipment because funds were not available to purchase. Agencies then continue the agreements, often without analyzing continuing cost benefits. One agency indicated they continue to lease equipment because they have more flexibility in operating funds than in capital funds.

We recognize there may be instances where rental is justified. These instances include situations where the need for the equipment is short term, or purchase and maintenance costs exceed rental cost. However, in general, continued lease or rental is not beneficial to the state.

Section 18-4-313(2), MCA, requires that it be determined in writing prior to the extension or renewal of a contract that the contract will be in the best interest of the state. Since the Department of Administration is the contracting authority for acquisitions, the department should establish procedures to ensure agency compliance with section 18-4-313(2), MCA.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH PROCEDURES TO ENSURE THE PERIODIC REVIEW OF THE COST BENEFIT OF LEASE AND RENTAL AGREEMENTS FOR DATA PROCESSING EQUIPMENT IS PERFORMED IN ACCORDANCE WITH SECTION 18-4-313, MCA.

CHAPTER IV

PURCHASING PROCEDURES

In our evaluation of purchasing procedures we examined concerns related to vendor selection, sole source purchases, bid specifications, approval of specifications, and time allowed for bid preparation.

Chapter 519, Laws of Montana, 1983, substantially revised the purchasing laws for the state of Montana. During our audit, the Department of Administration was in the process of adopting rules in accordance with the new laws. We reviewed the new purchasing act and the proposed purchasing rules. The purchasing act and the proposed rules contain provisions that will address some of our concerns.

SELECTION OF VENDORS

Prior to the revision of purchasing laws effective January 1, 1984, sections 18-4-202 and 203, MCA, required the solicitation of bids from all vendors. The Purchasing Division was not complying with these laws. We also noted this in our 1979 purchasing audit. Chapter 519, Laws of Montana, 1983, revised the purchasing laws and repealed the above sections.

Section 18-4-122, MCA, effective January 1, 1984, provides in part:

"The underlying purposes and policies of this chapter are to: . . . (5) ensure the fair and equitable treatment of all persons who deal with the procurement system of the state; . . . (7) foster effective, broad based competition within the free enterprise system; . . ."

The law indicates legislative intent to be that the bidding process be as open and competitive as possible. Selecting some vendors to receive bid requests and excluding others is generally not in compliance with the intent of purchasing laws effective January 1, 1984.

The Legislature did provide an exemption to this in limited circumstances. Section 18-4-305, MCA, allows the department to

establish small purchase procedures. The Purchasing Division has defined small purchase as purchases not exceeding \$2,000. Rules established by the Purchasing Division require bids be solicited from not less than three vendors unless the item is a sole source acquisition.

The following sections include our suggestions for improving the vendor selection.

Selection Criteria

As noted previously, current purchasing rules allow the purchasing agent to select vendors to receive the request for quotation for small purchases. However, the rules do not specify objective criteria for selecting the vendors. Nor do they require documentation showing how the vendors were selected. In order to "promote fair and equal treatment," and to "foster effective, broad based competition," the Purchasing Division should establish objective criteria for the selection of potential vendors. The division should also maintain sufficient documentation to show objective criteria was used in selecting vendors and competition was not unduly reduced.

RECOMMENDATION #3

WE RECOMMEND THAT THE PURCHASING DIVISION INCLUDE IN ITS PURCHASING RULES:

- A. OBJECTIVE CRITERIA FOR THE SELECTION OF VENDORS WHEN SOLICITATION OF BIDS FROM ALL VENDORS LISTED FOR A COMMODITY IS NOT PRACTICAL.
- B. A REQUIREMENT TO DOCUMENT THE SELECTION PROCESS TO SHOW SELECTION WAS BASED ON OBJECTIVE CRITERIA.

Non-Responsive Vendors

We determined that a large number of vendors do not respond to many requests for quotation for data processing equipment. Purchasing laws and proposed purchasing rules allow for

suspension or removal of vendors from the bidders list for non-response. To reduce costs, the Purchasing Division could collect the necessary information and remove non-responsive vendors from the bidders list.

RECOMMENDATION #4

WE RECOMMEND THE PURCHASING DIVISION REMOVE NON-RESPONSIVE VENDORS FROM THE BIDDERS LIST.

BID SPECIFICATIONS

Our audit disclosed four areas related to bid specifications in which improvements can be made. The following sections discuss rejection of low bids, brand name specifications, restrictive specifications, and justified brand name acquisitions.

Rejection of Low Bids

During our audit we noted three different instances when the lowest bids were rejected based on the premise of not meeting compatibility requirements. These compatibility requirements were not specified in the requests for quotation. In each situation the recommended brand and model was accepted rather than a lower cost equivalent.

In one instance, general specifications accompanied the brand name on the request for quotation. Each item rejected met the specified requirements and met them at a lower price. In the two remaining instances, no specifications were given other than a brand name or model number. Items meeting or exceeding manufacturers' specifications for the brand name items were bid at a lower cost. The lower cost items were rejected because of not meeting compatibility requirements which were not stated in the request for quotation.

According to section 18-4-302(4), MCA, bids must be evaluated based on the requirements set forth in the invitation for bids. Only the criteria set forth within the invitation for bids may be used in bid evaluation. If compatibility requirements are

one of the criteria upon which selection will be based, they must be included in the invitation for bids. Since the requests for quotation that we noted had none of these requirements but were used to evaluate bids, all bids should have been rejected and the invitation for bids amended and new bids solicited.

To alleviate these problems in the future, Purchasing should issue requests for quotation which contain detailed specifications determining compatibility and use requirements. If a low bid is rejected, the reason why should be related to the bid specifications included in the request for quotations.

RECOMMENDATION #5

WE RECOMMEND THE PURCHASING DIVISION:

- A. INCLUDE ALL REQUIREMENTS IN SPECIFICATIONS ON THE REQUEST FOR QUOTATIONS.
- B. EVALUATE BID PROPOSALS BASED ONLY ON SPECIFICATIONS INCLUDED IN THE REQUEST FOR QUOTATION.

Brand Name Specifications

Eighty-two percent of requisitions recorded on the data processing requisition log specified a desired brand name. Vendors we contacted believed that the use of brand names limits competition. Several vendors indicated that they will no longer bid equivalents when a brand name is specified. They believed the brand name item is always selected and they were wasting their time trying to sell the state an equivalent.

We examined a sample of twenty requisitions that specified brand names. All twenty contained the statement that "Brand name items or descriptions used in this proposal are specified solely for the purpose of indicating standards of quality, performance and/or use desired." The brand name specified was purchased for all twenty sample items.

Section 18-4-234, MCA, requires that specifications promote overall economy, encourage competition, and not be unduly restrictive. The department's new rules suggest that the requesting

agency submit at least three brand names. We believe the department should continue to monitor the use of brand names to help assure brand name specifications are used properly.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION
MONITOR THE USE OF BRAND NAME SPECIFICATIONS.

Restrictive Specifications

Most of the vendors we contacted indicated specifications, even when no brand name is included, are sometimes too restrictive. We noted examples where specifications provided were exactly those listed on the vendor literature for the item ultimately purchased. The specifications went as far as to require a 13 foot power cord which was identical to the length described in vendor literature.

Specifications not related to the functional and physical requirements of an agency are unduly restrictive and tend to discourage competition. As noted in the previous section, the law prohibits unduly restrictive specifications. The Department of Administration should require that specifications relate to the functional and physical needs of an agency.

RECOMMENDATION #7

WE RECOMMEND DEPARTMENT OF ADMINISTRATION REQUIRE
SPECIFICATIONS TO BE RELATED TO THE FUNCTIONAL
AND PHYSICAL REQUIREMENTS OF AN AGENCY.

Justified Brand Name Acquisitions

We noted instances in which an agency submitted a specific brand name and model which was needed. However, the request for quotation was sent out including the provision that substitutes would be accepted. This led vendors to prepare bids which the agency would not accept even if they were the apparent low bidder.

Certain factors may justify the choice of a particular brand. An agency's extensive use of similar equipment, personnel familiarity of a certain brand, easy substitution, and minimal maintenance, may each be justifiable reasons. If an agency has a legitimate basis for the purchase of a single brand, this reason should be documented with the requisition. The request for quotation should clearly state "only (brand name) will be accepted."

RECOMMENDATION #8

WE RECOMMEND PURCHASING DIVISION:

- A. REQUIRE AGENCY DOCUMENTATION OF JUSTIFICATION FOR REQUESTING A SINGLE BRAND OR MODEL OF DATA PROCESSING EQUIPMENT.
- B. CLEARLY INDICATE ON THE REQUEST FOR QUOTATION THAT "ONLY (BRAND NAME) WILL BE ACCEPTED" WHEN ACQUIRING A SPECIFIC BRAND OR MODEL IS JUSTIFIED.

SOLE SOURCE ACQUISITION

Forty-four percent (192 of 432) of the data processing requisitions submitted in fiscal year 1982-83 resulted in sole source acquisitions. We defined a sole source acquisition as any purchase where a quotation was obtained from only one vendor. Use of sole source acquisitions reduces competition which is contrary to legislative intent.

We determined many sole source acquisitions were made even though alternate sources existed for the items purchased. In addition, a considerable number of sole source acquisitions were limited to a single source because only a single brand and model was considered.

Purchasing Division policies require that agencies provide justification for sole source purchases. Policies also require review and approval of sole source requisitions by a committee of Purchasing Division personnel. We determined the division was not following these internal policies for all sole source requisitions.

Section 18-4-306, MCA, limits sole source acquisitions to situations where only one source exists. The law also requires the Department of Administration to maintain a record of all sole source purchases. Purchasing Division should establish adequate procedures to ensure compliance with the law and Purchasing Division policies on sole source acquisitions.

We also determined the review of sole source requisitions by Purchasing Division personnel may not be appropriate. Since nearly all data processing requisitions are processed by one purchasing agent, other Purchasing Division personnel lack data processing expertise. It may be more appropriate to rely on data processing personnel to review data processing sole source requisitions. Such a review could be combined with current reviews conducted by Computer Services Division and the Montana University System.

RECOMMENDATION #9

WE RECOMMEND THE PURCHASING DIVISION:

- A. ESTABLISH PROCEDURES TO ENSURE COMPLIANCE WITH SECTION 18-4-306, MCA, AND DIVISION POLICIES ON SOLE SOURCE ACQUISITIONS.
- B. REQUEST COMPUTER SERVICES DIVISION AND MONTANA UNIVERSITY SYSTEM ASSISTANCE IN DETERMINING IF A DATA PROCESSING REQUISITION HAS ONLY ONE SOURCE.

APPROVAL OF SPECIFICATIONS

During our examination of data processing requisitions we noted instances where requisitions were not approved in accordance with section 2-17-501, MCA.

Section 2-17-501, MCA, requires the director of the Department of Administration to review and approve agency specifications and procurement methods for the acquisition of data processing equipment to insure network compatibility and conformity with the state data processing plan. The director of the Department of

Administration has delegated the review and approval process to the administrator of the Computer Services Division (CSD).

Delegated Purchasing Authority

Our review disclosed an instance where the Purchasing Division delegated purchasing authority to an agency. The review of specifications required by section 2-17-501, MCA, was not performed.

In that instance, the Purchasing Division informally delegated purchasing authority to the Workers' Compensation Court. The person handling the purchase for the Court stated she was unaware of the approval requirement. Since the Purchasing Division is considering delegation of additional purchasing authority to agencies, this situation may also occur in the future. The Purchasing Division should establish procedures to ensure all appropriate requisitions are approved by CSD. The Purchasing Division administrator stated they plan to include a notice of the requirement for approval in their written delegation agreement.

RECOMMENDATION #10

WE RECOMMEND THE PURCHASING DIVISION ESTABLISH PROCEDURES, WHEN DELEGATING PURCHASE AUTHORITY, TO ENSURE SPECIFICATIONS ARE REVIEWED AND APPROVED AS REQUIRED BY SECTION 2-17-501, MCA.

University System Requisitions

Most of the instances of possible non-compliance with the approved requirements of section 2-17-501, MCA, related to requisitions submitted by the university system. The Computer Services Division (CSD) delegated to the university system the authority to determine whether an acquisition was subject to CSD's review as an administrative acquisition. Our review indicates the university system has interpreted the law liberally. Thus, there is a question whether CSD should have reviewed some of the acquisitions which it did not.

A majority of the requisitions submitted by the university system require compatibility with university system computer systems, and not with the central computer network in Helena. The administrator of CSD indicated he relies on the university computer center directors when performing the review. CSD review and approval seems appropriate only for items requiring compatibility with the central computer system. It would be more appropriate to require an employee of the university to review and approve university system requisitions which do not require central system compatibility.

We believe the Department of Administration should seek a change in the law allowing the Office of the Commissioner of Higher Education to perform the review and approval of university system data processing requisitions when no compatibility with the central computer system in Helena is required. Such a change would remove much of the possibility for non-compliance and provide a more effective and efficient review process.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION SEEK LEGISLATION TO AMEND SECTION 2-17-501, MCA, TO DELEGATE THE REVIEW AND APPROVAL OF UNIVERSITY SYSTEM SPECIFICATIONS TO THE UNIVERSITY SYSTEM WHEN NO COMPATIBILITY WITH THE CENTRAL COMPUTER SYSTEM IS REQUIRED.

ADEQUACY OF TIME FOR BID PREPARATION

To ensure the state of receiving accurate bids from vendors, enough time has to be allowed each bidder to reasonably develop a quote. Eight out of ten vendors we contacted indicated time allowed for bid preparation was inadequate.

We examined twenty price request files and found the average number of days given to vendors by Purchasing was nineteen and one-half. This time period included time in the mail and non-working days (weekends and holidays). With time in mail and non-working days excluded, average time allowed was eight and

one-half working days. We also determined that this time period affected the number of bids received and therefore reduced competition. Several instances were noted where numerous vendors either failed to respond, responded with "no-bid" or sent a letter of protest when time to prepare a bid was inadequate. Because fewer bids are being submitted, competition is being reduced. As a result, the state may not be getting the best available prices. Our analysis during the 1979 Purchasing Audit showed that receiving more bids lowers the price to the state.

The vendors we contacted suggested allowing at least two working weeks, excluding mailing time and non-working days for bid preparation. They also suggested increasing the time allowed for items with complex specifications or high costs. Vendors should also be allowed more time at fiscal year-end when a large number of requests for quotation are solicited over a short period of time. From June 1 to June 9, 1983, eighteen vendors were sent six separate requests for quotations for microcomputer or word processing systems. Only seven to eight working days were allowed to complete all six bids. Purchasing received an average of only three bids from eighteen solicitations for each of the six systems.

RECOMMENDATION #12

WE RECOMMEND THAT THE PURCHASING DIVISION ESTABLISH SPECIFIC STANDARDS FOR THE AMOUNT OF TIME ALLOWED FOR VENDORS TO PREPARE BIDS AND PERIODICALLY REVIEW THE ADEQUACY OF THE TIME ALLOWED.

CHAPTER V

VENDOR CONTRACTS

During the preliminary work on this audit, several agency processing managers expressed a concern that review of contracts may not be adequate. Prior to April 1983, the Data Processing Coordinator in the Governor's Office of Budget and Program Planning performed a review of data processing contracts. In April 1983, Chapter 486, Laws of Montana, 1983, transferred the responsibility for contract review to the Department of Administration. The scope of the review was also reduced to insure conformity with the statewide data processing plan.

We examined a sample of contracts for the purchase or development of software entered into after April 1983. In our examination we identified a concern relating to ownership rights and documentation of software purchased by or developed for the state.

State agencies commonly use two methods for acquiring software. Agencies either purchase or obtain a license to use already developed software from a vendor. Agencies also contract for the development of software.

Software vendors generally license the use of software for a specific period of time. For large systems, a monthly or annual fee is usually charged for maintenance. Maintenance includes the repair of defects in the program or other alterations initiated by the vendor.

A potential problem exists if a vendor supplying a software system goes out of business or discontinues software maintenance. The user agency may have insufficient information to keep the software operating until a new system could be developed or acquired.

When a private contractor develops software for a state agency, the ownership of the programs and documentation is specified in the contract. The contract may also specify that the vendor will maintain the software for the agency. Later, the vendor may decide to discontinue support or the agency may decide it is cost beneficial for agency personnel to maintain

the software. Again, the user agency may have difficulty if the documentation and programs are not available.

Whether the agency is acquiring already developed software or contracting for development, agency management should decide how critical the software is to agency operations. For critical software, the contract should include a provision giving the agency access to the programs and documentation should support be discontinued.

We believe the Department of Administration should inform agencies of potential software maintenance problems. We recommend the department issue guidelines to agencies to include a provision in contracts requiring the vendor to provide the agency with access to programs and documentation for critical software in the event of discontinued support.

RECOMMENDATION #13

WE RECOMMEND THAT THE DEPARTMENT OF ADMINISTRATION ESTABLISH GUIDELINES FOR AGENCIES TO INCLUDE A PROVISION IN CONTRACTS REQUIRING THE VENDOR TO PROVIDE THE AGENCY ACCESS TO PROGRAMS AND DOCUMENTATION OF CRITICAL SOFTWARE IN THE EVENT OF DISCONTINUED SUPPORT.

CHAPTER VI

DISPOSAL OF DATA PROCESSING EQUIPMENT

Disposal of data processing equipment is governed by the same laws, rules, and policies as other disposals of surplus property. When an agency has surplus data processing equipment the agency is required to declare the property as surplus. Declaration is made by preparing Surplus Property Bureau form SP-3 (Declaration of Surplus Property) and submitting the form to the Surplus Property Bureau. The Surplus Property Bureau then works with the agency to relocate or dispose of the surplus property.

Currently the Computer Services Division informally reviews equipment disposals and attempts to locate agencies that could use the equipment. The division has been successful in facilitating the transfer of equipment between agencies.

During our audit, we identified two concerns relating to the disposal of data processing equipment.

SALE OF SURPLUS DATA PROCESSING EQUIPMENT

During fiscal year 1983, the Department of Administration, Surplus Property Bureau, received three keypunches that were declared as surplus property by agencies. The three keypunch machines were sold, along with several other data processing items, for a total of \$455.

At the time the keypunch machines were sold, three state agencies, the Office of the State Auditor, Warm Springs State Hospital, and Montana State University, were renting the same type of keypunches. The three agencies continue to rent the keypunches at a total cost of over \$900 per month. Had the three keypunches been distributed to the agencies renting similar machines, the state could have saved in excess of \$7,500 between November 1982 and January 1984.

We believe the above situation resulted partially from a misunderstanding by the Surplus Property Bureau. When the Surplus Property Bureau received the keypunches they were informed the

machines were obsolete. Because of their obsolescence, the Surplus Property Bureau did not circulate a notification of the availability of the equipment to state agencies. While the keypunches are obsolete, they still serve a useful function.

Similar situations could be prevented by establishing a formal review and approval of all data processing disposals by someone familiar with data processing equipment and the data processing environment of the state. Such expertise is available in the Computer Services Division for most state agencies. A similar review and approval function should be established at the Office of the Commissioner of Higher Education for the Montana University System.

RECOMMENDATION #14

WE RECOMMEND THE SURPLUS PROPERTY BUREAU REQUEST:

- A. THE COMPUTER SERVICES DIVISION REVIEW AND APPROVE DISPOSAL OF DATA PROCESSING EQUIPMENT.
- B. THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION REVIEW AND APPROVE RELEASE OF DATA PROCESSING EQUIPMENT FROM THE UNIVERSITY SYSTEM FOR DISPOSAL.

LEASE RETURNS

Many agencies currently lease data processing equipment. Under many lease plans, a portion of the lease payment accrues toward the purchase price of the equipment. Currently there are no policies relating to lease returns that ensure purchase credits are not lost when they could be used by another agency wishing to acquire a similar piece of equipment.

An informal review of lease returns is being performed at Computer Services Division of the Department of Administration when the information is available. The informal review has been effective in locating agencies that are searching for equipment and can use the accrued credits. The effectiveness of the current review is limited by information available to the division. While we

did not identify instances of loss of purchase credits during our examination, we determined the potential for loss exists.

To prevent loss of purchase credits, the Department of Administration should establish policies requiring agencies to notify the department prior to returning leased data processing equipment for which purchase credits have accrued. The Computer Services Division is familiar with equipment purchased on a regular basis because of specifications review. The division could then review and approve the proposed return to ensure purchase credits that could be used are not lost.

RECOMMENDATION #15

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION:

- A. ESTABLISH POLICIES TO REQUIRE AGENCIES TO NOTIFY THE DEPARTMENT PRIOR TO RETURNING LEASED DATA PROCESSING EQUIPMENT WITH ACCRUED PURCHASE CREDITS.
- B. REVIEW AND APPROVE PROPOSED LEASE RETURNS TO ENSURE PURCHASE CREDITS USABLE BY THE STATE ARE NOT LOST.

CHAPTER VII

MAINTENANCE OF DATA PROCESSING EQUIPMENT

In our preliminary work on acquisition of data processing equipment, several data processing managers expressed a concern about the high cost of maintenance for data processing equipment. We estimate the state spends between \$600,000 and \$750,000 annually for maintenance of data processing equipment.

We examined a sample of maintenance agreements and evaluated various maintenance alternatives. A few larger agencies have reviewed their own maintenance expenditures and adopted alternatives to vendor maintenance contracts. Such analysis was not widespread. We discussed the maintenance issues with state data processing managers and representatives of private firms to identify some possible alternatives.

All of the state data processing managers to which we talked agreed that self-maintenance of certain data processing equipment items would be cost beneficial. Self-maintenance is when state employees maintain the equipment. Items which are commonly used and have a low failure rate are the most desirable for self-maintenance. These items include some types of display terminals and microcomputer systems. Self-maintenance would be less desirable for uncommon items, items in remote locations, and items subject to frequent failure.

Several agencies, including the University of Montana and Montana State University, are performing various amounts of self-maintenance. Agencies performing self-maintenance indicated that the programs are cost beneficial.

During our examination we also contacted "third party" vendors that provide maintenance from the manufacturer at reduced costs. Third party contractors rely on their own or user personnel to provide some of the services previously performed by manufacturer maintenance personnel. Third party contractors we interviewed claimed their services could save 20 percent of current manufacturer maintenance cost. Lower costs claimed by "third

party" contractors indicates substantial savings can be realized through aggressive management of equipment maintenance.

Obtaining reliable information on maintenance costs and potential savings is difficult because few agencies keep records on the frequency or extent of repairs to data processing equipment. The Department of Administration should establish guidelines requesting agencies to record maintenance data and periodically review the cost benefit of maintenance alternatives. The department could then periodically collect and evaluate maintenance alternatives for state data processing equipment. Evaluations of maintenance data could also provide valuable information on equipment reliability.

RECOMMENDATION #16

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION PERIODICALLY COLLECT AND REVIEW MAINTENANCE INFORMATION TO DETERMINE THE COST BENEFIT OF MAINTENANCE ALTERNATIVES.

CHAPTER VIII

EQUIPMENT POOL

Chapter 486, Laws of Montana, 1983, established authority for the Department of Administration to operate and maintain a central data processing equipment pool for state government.

Our examination was directed at determining if an equipment pool could be used as an alternative to the lease or rental of data processing equipment. We also examined the potential of a pool to assist in the disposal of data processing equipment.

We determined an equipment pool would be a cost beneficial alternative to the lease or rental of data processing equipment. The pool could also be used to facilitate the transfer of equipment between agencies and to meet short term or seasonal equipment needs.

Several agencies currently lease or rent data processing equipment because of budgetary or cash flow restrictions which preclude immediate purchase. Some agencies also rent commonly used equipment items because they have only a seasonal need for the equipment. The Department of Administration could acquire commonly used items by purchase or time purchase. The items could then be leased to user agencies for less than the cost of vendor lease or rental agreements. Also, if an equipment item became surplus to an agency but still usable by another agency it could be placed in the central pool and leased or transferred to the other agency.

The Department of Administration did not budget for the establishment of an equipment pool in the current biennium. Even so, the Computer Services Division has been able to establish a small pool of data processing equipment which is being leased to other agencies. This small pool, consisting of terminals, modems, and a control unit, is annually saving users approximately \$1,500 over costs to lease from vendors. In addition to the savings, the state obtains ownership of the equipment. The pool also allows agencies to lease equipment from the Computer Services Division

which is not available for lease from vendors. These arrangements have been cost beneficial both to the user agency and to the state as a whole.

RECOMMENDATION #17

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH A DATA PROCESSING EQUIPMENT POOL TO BE USED BY STATE AGENCIES AND ENCOURAGE ITS USE AS AN ALTERNATIVE TO THE LEASE OR RENTAL OF EQUIPMENT.

AGENCY REPLIES

DEPARTMENT OF ADMINISTRATION
COMPUTER SERVICES DIVISION



TED SCHWINDEN, GOVERNOR

ROOM 22, MITCHELL BUILDING

STATE OF MONTANA

(406) 444 2700

HELENA, MONTANA 59620

RECEIVED

MONTANA LEGISLATIVE AUDITOR

March 15, 1984

Robert R. Ringwood
Legislative Auditor
State Capitol, Room 135
Helena, Montana 59620

Dear Mr. Ringwood:

We have reviewed the recommendations on the EDP Audit of the Acquisition and Disposal of Data Processing Equipment and Software.

We believe that most of the recommendations identify areas where improvements will aid in the difficult process of procuring the State's data processing equipment.

Our responses to each of the recommendations are enclosed. We appreciate the opportunity we have had to interact with your staff on these issues and also the opportunity provided to us at this time to respond formally to the recommendations.

Sincerely,

Morris L. Bruset

MORRIS L. BRUSETT, Director
Department of Administration

Enclosure

Response to the EDP Audit of
THE ACQUISITION AND DISPOSAL OF DATA PROCESSING HARDWARE AND SOFTWARE

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH A POLICY REQUIRING AGENCIES TO:

- A. ANALYZE THE COST BENEFIT OF ACQUISITION METHODS PRIOR TO ACQUIRING DATA PROCESSING EQUIPMENT.
- B. USE THE MOST COST BENEFICIAL ACQUISITION METHOD OR JUSTIFY, IN WRITING, THE USE OF AN ALTERNATIVE PROCESS.

D OF A RESPONSE

We concur with this recommendation. Guidelines will be developed to encourage agencies to consider the benefits of the various procurement options that are available.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH PROCEDURES TO ENSURE THE PERIODIC REVIEW OF THE COST BENEFIT OF LEASE AND RENTAL AGREEMENTS FOR DATA PROCESSING EQUIPMENT IS PERFORMED IN ACCORDANCE WITH SECTION 18-4-313, MCA.

D OF A RESPONSE

We concur with this recommendation. We intend to request resources in our 86-87 biennium budget to handle contract development, analysis and enforcement. Guidelines will be issued to assist agencies in reviewing data processing equipment lease and rental renewals.

RECOMMENDATION #3

WE RECOMMEND THAT THE PURCHASING DIVISION INCLUDE IN ITS PURCHASING RULES:

- A. OBJECTIVE CRITERIA FOR THE SELECTION OF VENDORS WHEN SOLICITATION OF BIDS FROM ALL VENDORS LISTED FOR A COMMODITY IS NOT PRACTICAL.
- B. A REQUIREMENT TO DOCUMENT THE SELECTION PROCESS TO SHOW SELECTION WAS BASED ON OBJECTIVE CRITERIA.

D OF A RESPONSE

We concur with this recommendation. A newly implemented automated vendor selection system is being refined to ensure that all responsive vendors receive those formal Invitations for Bids they have asked to receive. In addition to the two purposes quoted by the audit report on page 13, Section 18-4-122, MCA, lists others, including "(6) provide increased economy in state procurement activities and maximize to the fullest extent practicable the purchasing value of public funds of the state, ..." Guidelines will be provided for selecting vendors when solicitation from all is not practical or economical.

RECOMMENDATION #4

WE RECOMMEND THE PURCHASING DIVISION REMOVE NONRESPONSIVE VENDORS FROM THE BIDDERS LIST.

D OF A RESPONSE

We concur with this recommendation. Such a function is a part of the design of our automated vendor selection system. We intend to request funds in our 86-87 biennium budget to implement this function.

RECOMMENDATION #5

WE RECOMMEND THE PURCHASING DIVISION:

- A. INCLUDE ALL REQUIREMENTS IN SPECIFICATIONS ON THE REQUEST FOR QUOTATIONS.
- B. EVALUATE BID PROPOSALS BASED ONLY ON SPECIFICATIONS INCLUDED IN THE REQUEST FOR QUOTATION.

D OF A RESPONSE

We concur with this recommendation. All of our internal policies and procedures, staff training, new law and new rules seek to ensure that this recommendation is standard operating procedure for all of state government purchasing. In the rapidly changing, highly technical data processing industry, keeping abreast of specifications is a unique challenge. We will develop a data processing specification checklist for agencies use in developing specifications and for our use in reviewing and bidding them.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION MONITOR THE USE OF BRAND NAME SPECIFICATIONS.

D OF A RESPONSE

We concur with this recommendation. Rules (2.5.501) have been adopted to require more than one acceptable brand name be identified, if possible, in developing specifications. The provisions described in #5 above will also address this recommendation by providing for consideration of alternate brands as part of a specification checklist.

RECOMMENDATION #7

WE RECOMMEND DEPARTMENT OF ADMINISTRATION REQUIRE SPECIFICATIONS TO BE RELATED TO THE FUNCTIONAL AND PHYSICAL REQUIREMENTS OF AN AGENCY.

D OF A RESPONSE

We concur with this recommendation. However, identifying an agency's functional and physical data processing requirements is the responsibility of the agency and is outside the scope of our authority. We will require agencies to address this issue specifically as part of the data processing specification checklist described in Recommendation #5.

RECOMMENDATION #8

WE RECOMMEND PURCHASING DIVISION:

- A. REQUIRE AGENCY DOCUMENTATION OF JUSTIFICATION FOR REQUESTING A SINGLE BRAND OR MODEL OF DATA PROCESSING EQUIPMENT.
- B. CLEARLY INDICATE ON THE REQUEST FOR QUOTATION THAT "ONLY (BRAND NAME) WILL BE ACCEPTED" WHEN ACQUIRING A SPECIFIC BRAND OR MODEL IS JUSTIFIED.

D OF A RESPONSE

We concur with this recommendation. The data processing specification checklist identified under Recommendation #5 will require agencies to identify and document single brand requirements so that bids can be issued which accurately and completely list agency needs.

RECOMMENDATION #9

WE RECOMMEND THE PURCHASING DIVISION:

- A. ESTABLISH PROCEDURES TO ENSURE COMPLIANCE WITH SECTION 18-4-306, MCA, AND DIVISION POLICIES ON SOLE SOURCE ACQUISITIONS.

- B. REQUEST COMPUTER SERVICES DIVISION AND MONTANA UNIVERSITY SYSTEM ASSISTANCE IN DETERMINING IF A DATA PROCESSING REQUISITION HAS ONLY ONE SOURCE.

D OF A RESPONSE

We concur with this recommendation. Rules (2.5.604) have been adopted to assist the State in complying with Section 18-4-306, MCA. Data processing sole source requests will be reviewed and approved by the Computer Services Division or the University System, as appropriate.

RECOMMENDATION #10

WE RECOMMEND THE PURCHASING DIVISION ESTABLISH PROCEDURES, WHEN DELEGATING PURCHASE AUTHORITY, TO ENSURE SPECIFICATIONS ARE REVIEWED AND APPROVED AS REQUIRED BY SECTION 2-17-501, MCA.

D OF A RESPONSE

We concur with this recommendation. Rules (2.5.202) have been adopted regarding review and approval of certain equipment purchases. This subject is also a part of the formal delegation process.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION SEEK LEGISLATION TO AMEND SECTION 2-17-501, MCA, TO DELEGATE THE REVIEW AND APPROVAL OF UNIVERSITY SYSTEM SPECIFICATIONS TO THE UNIVERSITY SYSTEM WHEN NO COMPATIBILITY WITH THE CENTRAL COMPUTER SYSTEM IS REQUIRED.

D OF A RESPONSE

We concur with this recommendation. The Department of Administration will draft legislation to amend this statute.

RECOMMENDATION #12

WE RECOMMEND THAT THE PURCHASING DIVISION ESTABLISH SPECIFIC STANDARDS FOR THE AMOUNT OF TIME ALLOWED FOR VENDORS TO PREPARE BIDS AND PERIODICALLY REVIEW THE ADEQUACY OF THE TIME ALLOWED.

D OF A RESPONSE

We concur with this recommendation. We will revise our present standards to reflect the audit findings regarding time in the mail and non-workdays. We will continue to seek solutions and suggestions for accommodating the conflicting demands of agency's needs, vendor's needs and state fiscal encumbrance requirements which converge at fiscal year end in the Purchasing Division.

RECOMMENDATION #13

WE RECOMMEND THAT THE DEPARTMENT OF ADMINISTRATION ESTABLISH GUIDELINES FOR AGENCIES TO INCLUDE A PROVISION IN CONTRACTS REQUIRING THE VENDOR TO PROVIDE THE AGENCY ACCESS TO PROGRAMS AND DOCUMENTATION OF CRITICAL SOFTWARE IN THE EVENT OF DISCONTINUED SUPPORT.

D OF A RESPONSE

We concur with this recommendation. We will include this item in guidelines that will accompany the next revision of the State's standard software contract.

RECOMMENDATION #14

WE RECOMMEND THE SURPLUS PROPERTY BUREAU REQUEST:

- A. THE COMPUTER SERVICES DIVISION REVIEW AND APPROVAL PRIOR TO DISPOSAL OF DATA PROCESSING EQUIPMENT.
- B. THE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION REVIEW AND APPROVAL PRIOR TO RELEASE OF DATA PROCESSING EQUIPMENT FROM THE UNIVERSITY SYSTEM FOR DISPOSAL.

D OF A RESPONSE

We concur with this recommendation. These reviews will be incorporated into our formal surplus property operating procedure.

RECOMMENDATION #15

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION:

- A. ESTABLISH POLICIES TO REQUIRE AGENCIES TO NOTIFY THE DEPARTMENT PRIOR TO RETURNING LEASED DATA PROCESSING EQUIPMENT WITH ACCRUED PURCHASE CREDITS.
- B. REVIEW AND APPROVE PROPOSED LEASE RETURNS TO ENSURE PURCHASE CREDITS USABLE BY THE STATE ARE NOT LOST.

D OF A RESPONSE

We concur with both sections of this recommendation. We intend to implement procedures to coordinate this activity.

RECOMMENDATION #16

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION PERIODICALLY COLLECT AND REVIEW MAINTENANCE INFORMATION TO DETERMINE THE COST BENEFIT OF MAINTENANCE ALTERNATIVES.

D OF A RESPONSE

We concur with this recommendation. We intend to implement procedures which would collect maintenance information so that various maintenance alternatives can be evaluated.

RECOMMENDATION #17

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH A DATA PROCESSING EQUIPMENT POOL TO BE USED BY STATE AGENCIES AND ENCOURAGE ITS USE AS AN ALTERNATIVE TO THE LEASE OR RENTAL OF EQUIPMENT.

D OF A RESPONSE

We concur with this recommendation. The Computer Services Division currently has a limited inventory of equipment that is being made available to state agencies. We intend to increase the size of the pool and are planning to request funds in our 86-87 biennium budget for this purpose.



THE MONTANA UNIVERSITY SYSTEM

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COMMISSIONER OF HIGHER EDUCATION

March 13, 1984

Mr. Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

I am responding to the performance audit report on acquisition and disposal of data processing equipment and software.

Let me state for the record that Mr. Paul Dunham of this office has maintained a close working relationship with both the Computer Services Division and the Purchasing Division of the Department of Administration on computing equipment and computer services. Mr. Dunham also coordinates the computer center directors at the six units of the University System. These relationships have worked well in the past, and we anticipate that they will continue to do so in the future.

Most of the recommendations in this audit report are directed to the Department of Administration. We of course plan to cooperate in the implementation of whatever recommendations are adopted by the Department of Administration. Only three recommendations refer specifically to the University System:

Audit Recommendation #9 (B)

- B. We recommend the purchasing division request computer services division and Montana University System assistance in determining if a data processing requisition has only one source.

University System Reponse

We would certainly cooperate.

Audit Recommendation #11

We recommend the Department of Administration seek legislation to amend Section 2-17-501 MCA to delegate the review and approval of University System specifications to the University System when no compatibility with the central computer system is required.

University System Response

We would support such an amendment.

Audit Recommendation #14 (B)

We recommend the Surplus Property Bureau request the Office of the Commissioner of Higher Education review and approval prior to release of data processing equipment from the University System for disposal.

University System Response

We would honor such a request.

Let me point out that all three of these recommendations involve an additional work load for this office. We rely heavily on the computer center directors for expert technical advice, but coordination and monitoring of the sort envisioned here requires staff time.

Sincerely,


Irving E. Dayton
Commissioner of Higher Education

IED:jw

Enclosure: Discussion Draft

